



Financial Reporting Bulletin

June 2000

• **Office of Thrift Supervision** •
• **Office of Research and Analysis** • **Financial Reporting Division** •
1700 G Street, N.W., Washington, DC 20552

TFR DEADLINE MONDAY, JULY 31, 2000
CMR DEADLINE MONDAY, AUGUST 14, 2000
BRANCH OFFICE SURVEY DEADLINE MONDAY, AUGUST 28, 2000

**It is important that you read this bulletin and the attached materials
before submitting your June TFR.**

NO CHANGES TO SEPTEMBER 2000 TFR

OTS has decided it will not make any changes to the Thrift Financial Report (TFR) this year and will hold off until March 2001 to collect additional data. The agency had published a notice on March 1 proposing to collect information on high loan-to-value loans, trust assets, residual interest in financial assets sold, and structured borrowings beginning with the third quarter of 2000. Although OTS believes the additional information would be useful, the immediate supervisory need does not outweigh the potential industry-reporting burden given a number of changes to the TFR are being considered for implementation in March next year. OTS also expects to propose the collection of data on subprime loans as part of the March 2001 TFR. OTS plans to publish a proposal for the March 2001 changes in the Federal Register within the next month. A copy of the notice will be published on OTS' web site.

DOS SOFTWARE DISCONTINUED

Production and support of the DOS version of OTSReporter software has been discontinued effective with the June 2000 filing cycle. A copy of the March 2000 release of OTSReporter Windows has been sent to all DOS users. This version of the software contains a utility to import your prior-cycle and Time-saver data from the DOS version. If you have questions or problems installing or using the OTSReporter Windows version, please call Cheyann Houts at 972-281-2412 or Doris Jackson at 972-281-2052, in the Dallas office of the Financial Reporting Division. System problems or questions should be directed to DPSC Technical Support at 800-825-3772.

The "Financial Reporting Bulletin" is published quarterly by the Financial Reporting Division of the Office of Thrift Supervision and distributed to all OTS regulated institutions. Its purpose is to provide the Thrift Financial Report preparer with reporting information and guidelines. Comments and suggestions on this bulletin should be sent to Patrick G. Berbakos, Director, Financial Reporting Division, Office of Thrift Supervision, at the above address, or by e-mail to patrick.berbakos@ots.treas.gov.

TFR TRAINING

OTS' Financial Reporting Division will conduct two training sessions in September in Dallas, Texas. This training will be the same as that presented last year. It is a basic course intended for individuals directly responsible for preparing the TFR.

CLASS DATES:

SESSION 1 SEPTEMBER 18-19, 2000

SESSION 2 SEPTEMBER 20-21, 2000

SESSION HOURS: DAY ONE: 1:00 PM - 5:30 PM

DAY TWO: 8:00 AM - 12:30 PM

The training will focus on TFR and CMR preparation and on using the DPSC filing software. Sessions will also include an overview of the OTS organization as well as tips on researching reporting issues on the OTS Internet (www.ots.treas.gov).

OTS will offer the training free, but attendees will be responsible for the arrangement and cost of their own travel, hotel, and meals. A complimentary continental breakfast will be served in the classroom at 7:30 a.m. on the second day of the session. To allow attendees time to travel to and from Dallas, each session will begin at 1 p.m. on the first day and will conclude at 12:30 p.m. on the next day. In most cases, attendees will need to spend only one night in the Dallas area.

A two-sided registration form is attached to this bulletin. Please complete both sides of the form and mail or fax it to the address given on the form. Sessions will be filled on a first-come, first-served basis. We will try to accommodate all requests; however, in order to keep the class size small, we will have to limit the number of participants from each institution and will give preference to individuals from institutions that have not yet sent personnel to any of the sessions. A confirmation along with a listing of local hotels will be faxed to all attendees by August 16.

SCHEDULE SB (SMALL BUSINESS LOANS)

Schedule SB, Consolidated Small Business Loans, is filed annually with the June 30 TFR. The software for Schedule SB is included with the electronic filing software you were sent in March. We have made no changes to the form or instructions for Schedule SB. Schedule SB must be submitted with the TFR and is due no later than Monday, July 31, 2000.

BRANCH OFFICE SURVEY (BOS)

OTS will mail the 2000 BOS instructions to all savings associations on Friday, July 21, 2000. The survey results must be filed electronically on or before Monday, August 28, 2000, using the OTS electronic filing software that was sent to you in March. The BOS software cannot be accessed prior to July 27th. The 2000 BOS report should not be transmitted before you transmit the June TFR. If you have any questions relating to the Branch Office Survey, please contact Financial Reporting Analyst Pam Schaar at 202-906-7205 in the Washington D.C. office or Cassandra Beasley at 972-281-2411, in the Dallas office.

SECOND QUARTER REGULATORY REPORTS

Report preparers should complete and transmit the June 2000 TFR as soon as possible after the close of the quarter. All schedules except CMR are due no later than Monday, July 31, 2000. Schedule CMR is due no later than Monday, August 14. ***Savings institutions that are exempt from filing Schedule CMR but choose to voluntarily file must follow the same filing deadlines as those institutions that are required to file. Institutions that fail to meet the filing deadline may not receive their interest rate risk reports for the quarter.*** Two days after transmitting CMR, voluntary filers should view their transmission log to determine if transmission was successful. If you do not have an acknowledgment of

transmission, contact Doris Jackson (972-281-2052 or doris.jackson@ots.treas.gov) to determine if OTS received your CMR filing.

Please remember to check your institution information, including: the name of the report preparer, telephone number, e-mail, and web site addresses, each time you submit a report. If you have any questions concerning the preparation of your report, please call your Financial Reporting Division contact in Dallas, Texas, or Trudy Reeves in Washington, DC, at 202-906-7317. If you have a problem with the electronic filing software or transmission, call Cheyann Houts at 972-281-2412 or Doris Jackson at 972-281-2052. If you need additional copies of the TFR form or instruction manual, call 202-906-6078, send an e-mail to tfr.instructions@ots.treas.gov, or obtain them from the OTS web site at www.ots.treas.gov/tfrpage.html.

2000 TFR FORM

A printing error was discovered on page 14 of the paper-copy forms sent out with the March 2000 Bulletin. The heading for Nonmortgage Loans was missing on Schedule CF. We have provided a corrected copy of Schedule CF with this bulletin.

CHANGES TO THE TFR INSTRUCTIONS

Attached are 20 pages of the TFR Instruction Manual that have been updated for June 2000. All updated pages are dated June 2000, and revisions are indicated by a bar in the right margin. The changes are as follows:

Pages 19 and 20, SC306 and SC330 – Corrected the term “financing leases” to “direct financing leases”.

Page 36, SC776, Accrued Taxes – Clarified that only the current portion of the income tax liability is reported on this line; the noncurrent portion is reported on SC790, Deferred Income Taxes. Added another asset code reference in item 2 under “do not include”.

Page 62, VA145, 158, and 150, Acquisitions – Added that included on these lines are adjustments necessary as the result of the purchase or sale of a consolidated subsidiary.

Pages 86 and 87, CC455 and CC465 – Corrected regulatory references.

Page 117, SQ110 – Clarified that acquisitions of empty branch office buildings, where no bank operations were purchased, are not included as branch purchases.

Pages 141, 154, 159, and 160 – Corrected regulatory references.

Page 146, CCR27, Tier 1 (Core) Capital Requirement – Corrected the definition of the tier 1 capital requirement to 3% for those associations assigned a composite CAMELS rating of “1”.

Page 153, Schedule CCR, General Instructions to Risk-weight Categories – Eliminated a reference to risk-weighting equity securities at 100%, since certain mutual funds may be risk-weighted according to the underlying assets, subject to a 20% floor.

Page 160, Schedule CCR, 50% Risk-weight, Other – Clarified that “substantial equity” in a construction project for purposes of determining risk-weight should be at least 10%.

Questions & Answers

TFR Questions and Answers are on the OTS web site at www.ots.treas.gov/tfrqanda.html. If you have a question that you would like to appear in this column or to which you would like an e-mail response, please submit it to tfr.instructions@ots.treas.gov.

Q&A No. 97

SUBJECT: LEASING ACTIVITIES

LINE(S): SC306, SC330, and SC690

Date: June 5, 2000

Question: *The Home Owners' Loan Act (HOLA) and OTS regulation 12 C.F.R. 560.41 authorize thrifts to engage in two types of leasing activities: finance leasing and general leasing. Does the institution's elected HOLA investment authority for a lease determine the classification for reporting purposes? For example, could a general lease for HOLA investment authority purposes be one that must be accounted for in the Thrift Financial Report (TFR) as a direct financing lease?*

Answer: Regardless of which HOLA investment authority the institution elects, it must report leases in the TFR in accordance with generally accepted accounting principles (GAAP). Under SFAS No. 13, "Accounting for Leases," a savings association as a lessor will generally account for a lease as either an operating lease or direct financing lease (sometimes referred to as a capital lease), depending on the lease terms. For an operating lease, the institution should report the property leased to others on TFR line SC690, "Other Assets", using code 10. In contrast, for a direct financing lease, the institution should not report the property leased to others as an asset. Rather, the institution should report the lease receivable as an asset, because the accounting for a direct financing lease is similar to that for a loan. Specifically, for a direct financing lease, the institution should report the lease receivable on either TFR line SC306, "Commercial Loans: Direct Financing Leases", or TFR line SC330, "Closed-end, Consumer Loans: Other, Including Leases". The institution's elected HOLA investment authority for a lease will not necessarily determine the classification for reporting purposes. For example, a general lease for HOLA investment authority purposes could be a lease that must be accounted for under GAAP as a direct financing lease.

Q&A No. 98

SUBJECT: AUTO LEASES

LINE(S): SC330

Date: June 5, 2000

Question: *An institution is planning to start an auto lease program. It appears that these leases will be reported as direct financing leases on SC330 – Other Consumer Loans, Including Leases. What happens if a lessee returns an auto either at the maturity of the lease or prior to term after paying off the lease contract? It is not repossessed, but returned. Should it be reported in Other Assets, SC690, or Other Repossessed Assets, SC430?*

Answer: If the terms of the lease are met, the auto should be reported in Other Assets, SC690, as Code 10. However, if the institution assumes physical possession of an auto because the terms of the lease are not met, the auto should be reported as Other Repossessed Assets on SC430.

Q&A No. 99

SUBJECT: CLOSED-END HOME EQUITY LOANS

LINE(S): SC316

Date: June 5, 2000

Question: *An institution has a closed-end home equity loan. The car for which the loan proceeds were used also collateralizes the loan. Is this loan categorized on the TFR by purpose as an automobile loan or as a home equity loan?*

Answer: If the auto substantially secures the loan, and the lien on the home is taken merely as an "abundance of caution," the loan should be reported as an auto loan on SC323.

Q&A No. 100

SUBJECT: UNINSURED DEPOSITS**LINE(S):** SI235**Date:** June 5, 2000

Question: *An institution has CDs over \$100,000 that are structured as follows:*

1. *Public funds secured by stand-by letters of credit issued by FHLB;*
2. *Public and private funds Insured by private deposit guaranty bonds; or*
3. *CDs used for loan collateral, which if the bank were closed, would be netted against the loans and would not create a claim against the FDIC.*

Are any of these reported as "uninsured deposits" on SI235?

Answer: Yes, all three of these should be reported on SI235. While it is correct that there may be some special treatment of these deposits in the event of the institution's failure, the amounts of these deposits in excess of \$100,000 are uninsured under the deposit insurance laws and regulations.

Q&A No. 101

SUBJECT: QTL FOR TRUST-ONLY CHARTERS**LINE(S):** SI581, 582, 583**Date:** June 5, 2000

Question: *Are institutions with trust-only charters required to calculate QTL?*

Answer: Yes. All OTS chartered savings associations must comply with QTL regulations unless they have a specific statutory exemption.

Q&A No. 102

SUBJECT: FEE INCOME ON INDIVIDUAL SECURITY SALES**LINE(S):** SI860**Date:** June 5, 2000

Question: *An institution maintains a financial services office that sells mutual funds to customers as well as individual equity securities. The financial services office receives a commission on every securities transaction. Should this income be included on line SI860 (Fee Income from the Sale and Servicing of Mutual Funds and Annuities), even though the sale is of an individual stock rather than a mutual fund or annuity as the instructions refer? Evidently, several stock transactions have occurred, but obtaining a query of the individual commissions from the customers is burdensome.*

Answer: No, do not include commissions on sales of individual equity securities. Only fee income from mutual fund and annuity sales and servicing should be reported on SI860.

Q&A No. 103

SUBJECT: MUTUAL FUND REFERRALS**LINE(S):** SI350

SI800:830

Date: June 5, 2000

An institution has a financial services department as a subsidiary. This department receives fees for setting up stock and equity mutual fund accounts for walk-in customers. The assets are entrusted to a third party corporation. The consolidated subsidiary of the institution receives a 20% commission for the referral. The customer makes the investment decision, while the financial services department acts as a conduit. They do not file an ARTA report with the FDIC.

Question 1: *Should accounts such as that described above be reported as trust assets on SI350?*

Answer 1: The type of activity described does not appear to be an activity requiring trust powers; therefore, it would not be included on the TFR or the ARTA.

Question 2: *Should these accounts be reported with mutual fund and annuity sales on SI810:830 even though the association is merely a conduit for the third party?*

Answer 2: Yes. The amount of sales should be reported on SI810:830. In addition they should report the amount of income (referral fee) on SI860.

Q&A No. 104

SUBJECT: QUALIFYING MULTIFAMILY MORTGAGE LOANS

LINE(S): CCR465

Date: June 5, 2000

Question: *The CCR instructions for qualifying multifamily mortgage loans require three criteria to be met for grandfathered loans (from March 18, 1994 forward) to qualify for 50% risk-weighting.*

Assume that the LTV ratio is satisfied but that the occupancy rate has fallen below the minimum 80% requirement since 3-18-94. Can the institution include these loans in the 50% risk-weight category if the average annual occupancy rate has increased over time to exceed 80% for the past year?

Answer: Yes. If a multifamily property does not qualify for 50% risk weight one year, it can still qualify in future years. It does not have to continuously qualify.

Q&A No. 105

SUBJECT: CALLABLE BOND PAST CALL DATE

LINE(S): CMR485

Date: June 5, 2000

Question: *An institution has a bond that was callable that they reported on CMR485. The call date passed without the bond being called. Should it be moved out of the structured securities line and reported as if it were now a fixed-maturity bond?*

Answer: Yes, if the security is no longer callable, it should be moved out of CMR485.

Q&A No. 106

SUBJECT: FACE VALUE OF LIABILITIES WITH OPTIONS, EDIT R960

LINE(S): CMR950

Date: June 5, 2000

Question: *The CMR instructions state: "reporting of market value estimates is optional for liabilities such as callable bonds". The instructions also state: "If the reporting savings association chooses to report its estimates of the market value of options on liabilities, it should also report, in CMR950, the principal value of the liabilities in which those options are embedded. Otherwise, leave CMR950 blank."*

If the institution does decide to rate shock their FHLB callable bonds, is it mandatory that CMR950 be completed for the principal value of the underlying liabilities? If so, must CMR945 always be less than 40% of the base case value on CMR950, as indicated in the TFR edits?

Answer: Yes, CMR950 should be completed if anything is reported in CMR942 through CMR948. There might be cases where CMR945 exceeds 40% of CMR950, but it would be unusual for the value of the embedded option to reach that large a size. The most likely reason for an edit to be triggered for a callable bond is that the institution may be reporting the estimated market value of the bond in CMR942-948, rather than the value just of the embedded call option.

Q&A No. 107

SUBJECT: CONVERTIBLE FHLB ADVANCES

LINE(S): CMR942:948

Date: June 5, 2000

Question: *How should a ten-year convertible advance from the Federal Home Loan Bank be reported on CMR where a call option exists? The FHLB may call the bonds on any quarterly payment date. If the market interest rates should rise by over 25 basis points from the current levels, the bonds would probably be called. Q&A No. 94 refers to callable CD's, but would convertible advances be treated in a similar manner?*

Answer: To report callable FHLB advances follow the instructions for Schedule CMR on page 216.

Callable borrowings: Callable borrowings are fixed-rate, fixed maturity borrowings that can be called by the issuer at certain dates before the borrowings' maturity date. Report the remaining maturity of callable borrowings using **either** Option 1 **or** Option 2, below.

Option 1: Report the remaining maturity of the borrowings based on their stated maturity, **and** report in CMR942 through CMR948 the market value of the call option in the seven interest rate scenarios.

Option 2: Report the remaining maturity of the borrowings based on their next call date.

In addition refer to the guidance in Thrift Bulletin 13a-1 concerning market value estimates for structured advances.

Q&A No. 108

SUBJECT: BALLOON LOANS

LINE(S): CMR

Date: June 5, 2000

Question: *The loan review of an institution discloses that they originate single-family balloon loans; however, these loans are reported on section CMR as adjustable mortgage loans. I am not positive if these should be reported as balloon loans or adjustable mortgage loans on CMR.*

An example of one of these loans is as follows:

\$72,000 Loan - 7.75% fixed for a one-year term, with a 20-year amortization.

The note calls for the entire indebtedness to be paid in full in one year. After each year the loan extends for another year at the institution's current loan rate. The note also states that if the borrower makes any prepayments within the first 5 years of the loan a prepayment penalty will apply. My understanding is that management is not charging customers a prepayment penalty if they pay off the loan at the renewal period each year. However, if they prepay during midyear, in the first 5 years, then a prepayment penalty will be charged.

At each yearly renewal, the loan is given the then-current loan rate for new loans. The managing officer states that they have always renewed these loans each year; however, they reserve the right to refuse to renew a loan.

Where should these loans be reported?

Answer: The loan described here is referred to in the Schedule CMR instructions as a "call loan" (page 179, item 4 near the bottom of the page). A call loan is categorized as fixed or adjustable rate based on the frequency with which it may be called. If it is subject to call (and thus potential coupon reset) at least every 5 years, it is reported as an ARM (see item 3 under "Include" on page 181); otherwise as a fixed rate mortgage.

SELECTED WEB SITE ADDRESSES

OTS Web Site Home Page	http://www.ots.treas.gov/
FDIC Web Site Home Page	http://www.fdic.gov/
TFR forms, the TFR Instruction Manual, Financial Reporting Bulletins, and Proposed Changes	http://www.ots.treas.gov/tfrpage.html
TFR Questions and Answers	http://www.ots.treas.gov/tfrqanda.html
Quarterly aggregate thrift industry data	http://www.ots.treas.gov/quarter.html
Asset & Liability Price Tables	
Interest Rate Projections for Capital Plans	
Interest Rate Risk Measures	
FDIC-insured institution directory and industry financial data	http://www.fdic.gov/bank/index.html
OTS institution directory	http://www.ots.treas.gov/inst/default.cfm
Institution directory and publicly available financial data for individual savings associations and commercial banks	http://www2.fdic.gov/call_tfr_rpts/
OTS Applications	http://www.ots.treas.gov/applications.html
Applications database	
Holding company database	
Application guidelines	
Annual Report of Trust Assets - publicly available data	http://www2.fdic.gov/artaweb/
Branch Office Survey/Summary of Deposits - publicly available data	http://www2.fdic.gov/sod/
Links to OTS industry statistical data	http://www.ots.treas.gov/ind-inst-data.html
Cost of Funds	
Thrift Industry National and Regional Net Annual Charge-offs by Asset Type	
OTS Fact Book (Historical Statistical Information of the Thrift Industry)	
OTS Press Releases	http://www.ots.treas.gov/news.html
OTS Regulatory Bulletins	http://www.ots.treas.gov/bltn_regulatory.html
OTS Thrift Bulletins	http://www.ots.treas.gov/bltn_thrift.html
Links to OTS Rules and other guidance	http://www.ots.treas.gov/laws-regs.html
National Archives and Records Administration	http://www.access.gpo.gov/su_docs/aces/aces140.html#frbrov
Links to:	
Code of Federal Regulations	
Federal Register Notices	

TFR INDUSTRY TRAINING REGISTRATION FORM

Office of Thrift Supervision
Financial Reporting Division
Dallas, Texas

COMPLETE ONE FORM FOR EACH ATTENDEE

PLEASE TYPE OR PRINT LEGIBLY

NAME _____
LAST FIRST MI

INSTITUTION NAME _____

INSTITUTION DOCKET NUMBER _____ PHONE _____ FAX _____

BUSINESS E-MAIL ADDRESS _____

BUSINESS MAILING ADDRESS _____

SESSION HOURS: DAY ONE: 1 PM – 5:30 PM
DAY TWO: 8 AM – 12:30 PM

CLASS PREFERENCE (circle one):

SESSION 1 SEPTEMBER 18-19

SESSION 2 SEPTEMBER 20-21

Have you or anyone from your institution attended TFR training
within the last year? Yes No (circle one)

A Class Confirmation along with a listing of local hotels will be faxed
to all registrants by August 16.

RETURN BOTH SIDES OF THIS FORM TO OTS AT THE ADDRESS ON
THE BACK NO LATER THAN TUESDAY, JULY 18, 2000.

Describe any reporting issues that you would like to see addressed in this training session:

Comments:

If you have questions about this registration form, please call Doris Jackson at 972-281-2052.

Mail both sides of this form to:

Financial Reporting Division
Office of Thrift Supervision
122 W. Carpenter Freeway, Suite 600
Irving, Texas 75039

Attention: Doris Jackson

Or **Fax** both sides of this form to:

972-281-2002
Attention: Doris Jackson

RETURN BOTH SIDES OF THIS FORM TO OTS NO LATER THAN
TUESDAY, JULY 18, 2000.

SC306: Financing Leases

Report all direct financing and leveraged leases, to corporations, partnerships, and individuals for business purposes.

Consumer Loans:

Loans issued at a discount should be reported net of the related unearned interest in accordance with APB Opinion No 21.

SC34: Total

Report the sum of SC310 through SC345. This line will be automatically computed by the electronic filing software.

Closed End:

Closed-end loans are loans that have a fixed amount to be disbursed where the entire amount is expected to be disbursed. Overdraft privileges, credit cards, and lines of credit are **open-end** loans because, although they have a fixed ceiling, the savings association may not necessarily disburse the full amount of the line of credit.

SC310: Loans on Deposits

Report share loans and other loans to individuals for household, family, and other personal expenditures fully secured by the pledge or assignment of the borrower's deposits or other credits at the lending institution. When a loan is secured by a lien on real estate or chattel and is also secured by a pledge on deposits, the entire loan should be classified based on what the reporting savings association considers the loan's primary collateral.

SC316: Home Improvement Loans

Report all closed-end, unsecured home improvement loans (insured or uninsured) for the equipping, alteration, repair, or improvement of 1-4 dwelling units. These loans are unsecured, are not fully secured by the real estate, or lack documentation of the value of the real estate collateral (*i.e.*, do not have an appraisal).

Do not include:

1. Loans for the improvement of multifamily housing (5 or more dwelling units) or for nonresidential property; report on SC303 (Unsecured Commercial Loans); and
2. Home equity lines of credit; report on SC340.

SC320: Education Loans

Report closed-end loans originated for the sole purpose of funding educational expenses.

SC323: Auto Loans

Report all loans to consumers secured by automobiles, including pickup or panel trucks, vans and sports utility vehicles that are primarily for personal use.

Do not include:

1. Loans on cars or trucks intended primarily for commercial, industrial and professional purposes; report on SC300 (Commercial Loans: Secured, Other than Mortgage);
2. Loans on motorcycles; report on SC330 (Other Closed-end Consumer Loans, Including Leases);
3. Loans on recreational vehicles such as boats and airplanes; report on SC330 (Other Closed-end Consumer Loans, Including Leases); and
4. Floor-planning (inventory/wholesale) loans; report on SC300 (Commercial Loans: Secured, Other than Mortgage).

SC326: Mobile Home Loans

Report consumer loans secured by mobile homes.

Do not include:

Floor-planning (inventory/wholesale) loans; report on SC300 (Commercial Loans: Secured, Other than Mortgage).

SC330: Other, Including Leases

Report closed-end loans to individuals for household, family, and other personal expenditures not included elsewhere and direct financing leases to individuals.

Include loans on:

1. Time-share units;
2. Motorcycles;
3. Boats;
4. Airplanes; and
5. Other recreational vehicles.

Do not include loans on units in cooperative buildings; report on SC250 (Permanent Mortgages on 1-4 Dwelling Units: Closed-end First Mortgages and Junior Liens).

Open-end:

Report loan amounts actually disbursed and still outstanding. Undisbursed amounts are reported on CC410 (Unused Lines of Credit: Open-end Consumer Lines).

Mortgage Collateralized Securities Issued:

Report only those mortgage collateralized securities that are not recorded as sales in accordance with GAAP as principally prescribed by SFAS No. 77, "Reporting by Transferors for Transfers of Receivables with Recourse" and FASB Technical Bulletin 85-2, "Accounting for Collateralized Mortgage Obligations (CMOs)."

SC740: CMOs (including REMICs)

Report all collateralized mortgage obligations (CMOs) issued by the reporting savings association and its consolidated subsidiaries net of issuance costs, discounts and premiums.

SC745: Other

Report all mortgage collateralized securities, other than CMOs, issued by the reporting savings association and its consolidated subsidiaries that are not recorded as sales in accordance with GAAP.

SC760: Other Borrowings

Report all other borrowings not included on SC720 through SC745.

Include:

1. Redeemable preferred stock issued by consolidated subsidiaries to third parties.
2. Mortgages and other encumbrances on the savings association's office premises or real estate owned for which the savings association is liable.
3. Obligations of an employee stock ownership plan (ESOP) to a lender other than the savings association or holding company, when such reporting is required under GAAP, including the AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans."
4. The underlying mortgage in a wrap-around loan unless the holder of the underlying mortgage has accepted a subordinated position, in which case, the underlying loan is deducted against the related loan.
5. Senior liens on foreclosed real estate.
6. Overdrafts in the reporting savings association's transaction accounts in other depository institutions, where there is no right of set-off against other accounts in the same financial institution. If the overdraft is in a zero-balance account or an account that is not routinely maintained with sufficient balances to cover checks drawn in the normal course of business, the funds received or held in connection with checks drawn on the other depository institutions are to be included in deposits;
7. Commercial paper issued.
8. Liabilities for capital leases related to assets reported on SC55.
9. Eurodollar issues.
10. The liability from a "sale" of loans with recourse accounted for as a financing; refer to SFAS No. 77, "Reporting by Transferors for Transfers of Receivables with Recourse."

Do not include:

1. Accrued interest due and payable; report on SC766 (Accrued Interest Payable - Other).
2. Redeemable preferred stock issued by the reporting savings association; report on SC799 (Redeemable Preferred Stock and Minority Interest).

3. Permanent preferred stock issued by a consolidated subsidiary; report on SC799 (Redeemable Preferred Stock and Minority Interest).

The interest and dividends on all borrowings and yield adjustments reported on this line must be charged to expense on SO260 (Other Borrowed Money). Interest expense must not be netted against the interest income on the related asset.

OTHER LIABILITIES

SC75: Total

Report the sum of SC763 through SC796. This line will be automatically computed by the electronic filing software.

SC763: Accrued Interest Payable - Deposits

Report accrued interest that has not been credited to deposit accounts.

Do not include:

Interest withheld from deposits for remittance to taxing authorities; report on SC783 (Escrows).

SC766: Accrued Interest Payable - Other

Include:

Accrued interest/dividends due on borrowings reported on SC720 through SC760.

SC776: Accrued Taxes

Include:

1. Current portion of federal, state and local income taxes;
2. Real estate taxes;
3. Employer's share of payroll taxes; and
4. Other miscellaneous taxes.

Do not include:

1. Taxes withheld from employees' salaries; report on SC783 (Escrows);
2. Tax accrual accounts with debit balances; report as accounts receivable on SC690 (Other Assets – CODE 03); and
3. Interest withheld from deposits for remittance to taxing authorities; report on SC783 (Escrows).

SC780: Accounts Payable

Report the amount accrued for services, supplies, materials, and other expenses.

charged-off (discussed above), nor should a gain (or a reduction of the provision for loss) be recorded until an analysis of the total valuation allowance is made.

The total provision for loss consists of the provision for loss on interest-bearing assets (SO321) and the provision for loss on noninterest-bearing assets (SO570), less the LOCOM adjustments for assets held for sale (SO465).

A negative provision for loss may be recorded when management determines that the valuation allowance is higher than required. At this point, management must determine if its analyses have considered all possible situations, and whether the previously established valuation allowances were in fact higher than necessary. To reverse a portion of the valuation allowance, a negative amount is reported in the provision for loss (SO321 or SO570).

Sales

When an asset for which a specific valuation allowance was previously established or which was previously reduced by a direct charge-off is sold, the difference between the carrying value of the asset (*i.e.*, net of the specific valuation allowance) and the sales price should be reported as a gain or loss on sale of that asset.

The sale of an asset in excess of its carrying value does not constitute a recovery for purposes of reconciling valuation allowances. Profits resulting from a sale of this type are not reported in the net provision for loss, but is reported as a gain on sale.

In order to remove an existing specific valuation allowance upon the sale of the related asset, the valuation allowance must be reported on VA158 (Charge-offs of Specific Valuation Allowances).

Foreclosures

At foreclosure (including in-substance), a comparison must be made of the recorded investment (*i.e.*, carrying value before deduction for valuation allowances) to the current fair value less cost to sell. Any excess of recorded investment over fair value less cost to sell is to be classified "Loss" and is to be charged-off against the existing specific valuation allowance. If the specific valuation allowance is not sufficient to absorb the loss, an additional charge-off must be made against the loan. Assets acquired through in-substance foreclosures are reported as REO at the fair value less cost to sell (at date of transfer). The same procedures described above apply.

VALUATION ALLOWANCE RECONCILIATION

VA105, 108, and 110: Beginning Balance

The valuation allowance balances as of the beginning of the period are reported in these data fields and will be automatically generated by the electronic filing software from the ending balances of the preceding reporting period. These data fields must equal the amounts reported on VA165, 168 and 170 of the immediately preceding reporting period for all savings associations except those involved in a merger accounted for as a pooling.

Special instructions for mergers:

- **Pooling mergers**

Report the combined beginning balance of the merged associations.

- **Purchase mergers**

Report the beginning balance of the surviving association only. When assets are recorded at fair value in applying the purchase method, typically all valuation allowances are written off directly against the asset. However, under certain circumstances valuation allowances (primarily general

valuation allowances) may be carried over to the surviving association; these valuation allowances on assets purchased are reported on VA145, 148, and 150 (Acquisitions).

Add or Deduct:

Report increases in valuation allowance accounts (*i.e.*, net credits) as positive numbers and decreases in valuation allowance accounts (*i.e.*, net debits) as negative numbers.

VA115, 118, and 120: Net Provision for Loss

Report the sum of provisions for losses on assets in the Statement of Operations, SO321 and SO570, less LOCOM adjustments made to assets held for sale, SO465, allocated between general and specific valuation allowances. The total net provision for loss, VA120, will be automatically generated from SO321, SO570 and SO465, and once VA115 is entered, VA118 will be automatically calculated by the electronic filing software.

A net credit to assets increases valuation allowances, flows through to the Statement of Operations as a debit (expense), and is reported as a positive number in this schedule. Conversely, a net debit to assets decreases valuation allowances, flows through to the Statement of Operations as a credit (income), and is reported as a negative number in this schedule.

VA125 and 128: Transfers

Report transfers between general and specific valuation allowances. VA125 and VA128 will always be equal, but will have opposite signs. Once VA125 is entered, VA128 will be automatically generated by the electronic filing software.

Add:

VA135 and 140: Recoveries

Report the amount of recoveries during the quarter due to repayment of assets previously charged off. Refer to the discussion of recoveries in the general instructions above. VA135 always equals VA140 which equals the sum of VA31, 381, 41, 51, 821, and 931. Therefore, VA135 and 140 are automatically generated by the electronic filing software once VA31, 381, 41, 51, 821 and 931 are entered.

VA145, 148, and 150: Acquisitions

Report the amount of valuation allowances on assets purchased for which a direct charge-off was not taken. Under certain circumstances the valuation allowances previously established by the seller may be carried forward to the purchasers' records. Include valuation allowances acquired in a business combination accounted for under the purchase method. Also include adjustments necessary as a result of the purchase or sale of a consolidated subsidiary, where the valuation allowances on the books of the subsidiary are consolidated with the savings association. VA150 is the sum of VA145 and VA148 and will be automatically generated by the electronic filing software.

CC340: To Purchase Mortgage Pool Securities

Report outstanding commitments to purchase mortgage pool securities of the types reported on SC210 and SC215.

CC350: To Sell Mortgage Pool Securities

Report outstanding commitments to sell mortgage pool securities of the types reported on SC210 and SC215.

CC360: To Purchase Investment Securities

Report outstanding commitments to purchase investment securities of the types reported on SC130 through SC150, SC180, and SC185.

CC370: To Sell Investment Securities

Report outstanding commitments to sell investment securities of the types reported on SC130 through SC150, SC180, and SC185.

LINES AND LETTERS OF CREDIT**Unused Lines of Credit**

Report all unused lines of credit (*i.e.*, the difference between the amount authorized by contract and the actual amount outstanding at quarter-end) issued by the reporting savings association or its consolidated subsidiaries in connection with credit cards or open-end loans, including those secured by a mortgage (*i.e.*, equity loans) or other collateral.

Do not include loans in process reported on CC105, CC115, or CC125.

CC410: Open-End Consumer Lines**CC420: Commercial Lines****Letters of Credit**

Report the undrawn portion of outstanding letters of credit at the end of the quarter. Do not report any other type of commitment; most other types of commitments are reported on CC280 through CC370.

Letters of credit are divided into two classifications:

1. A commercial letter of credit is one in which the issuer expects to pay drafts or other demands for payment.
2. A standby letter of credit is one in which the issuer stands ready to pay in the unexpected event that the customer defaults or fails to perform on the underlying contract with the third party.

Do not include unused lines of credit.

CC430: Commercial

Report the undrawn portion of commercial letters of credit.

CC435: Standby, Not Included on CC465 or CC468

Report the undrawn portion of all standby letters of credit not included on CC465 or CC468. Include both collateralized and uncollateralized standby letters of credit.

RECOURSE OBLIGATIONS AND DIRECT CREDIT SUBSTITUTES

Recourse obligations and direct credit substitutes are reported below in two ways: (1) the entire principal amount of the assets covered by a recourse obligation, which is reported on CC455, and (2) the amount of the recourse obligation (exposure), which is reported on CC465 for direct credit substitutes and on CC468 for recourse obligations. CC465 plus CC468 will be equal to CC455 only in those cases where the savings association has 100% recourse on all recourse obligations.

CC455: Total Principal Amount of Off-Balance-Sheet Assets Covered by Recourse Obligations or Direct Credit Substitutes

Report the outstanding principal balance of assets covered fully or partially by recourse obligations or direct credit substitutes of the savings association (defined in accordance with OTS Regulation 567.1, respectively). In general, direct credit substitutes support financial claims on an account party or represent agreements to absorb credit losses on all or part of a third-party asset pool.

Include:

1. Assets covered by the savings association's recourse obligations, letters of credit and other agreements, both collateralized and uncollateralized, to cover credit obligations of an account party.
2. The full amount of assets covered by recourse obligations issued by the savings association or a consolidated subsidiary, which requires it to absorb credit losses on assets held by a third party.
3. The full amount of assets covered against credit losses by financial-guarantee type standby letters of credit or other direct credit substitutes covering the full amount or a subordinated portion of an asset pool that are issued by the savings association or a consolidated subsidiary.
4. The full amount of assets protected by the savings association's agreement through a direct credit substitute (e.g., financial-guarantee type standby letter of credit) or recourse obligation to absorb credit losses up to some percentage of the asset pool. Such subordinated positions may represent the obligation to absorb credit losses up to a multiple of expected loss, thereby potentially being exposed to the same dollar credit loss as if the savings association guaranteed the entire pool. Report the amount of such subordinated positions plus more senior (protected) portions of the pool.
5. Assets held in a trust or spread account for which the savings association or a consolidated subsidiary has the obligation to absorb credit losses through holding a nonsecurity financial instrument under SFAS No. 125 or other agreement.

Do Not Include:

1. Loans insured or partially insured by government agencies (*e.g.*, if 80% of a loan is insured by the FHA or VA, report only 20% of the outstanding loan on this line; the insured portion should not be reported on this line);
2. Portions of asset pools on which third parties would be obliged to share losses on a pro-rata basis (*e.g.*, do not report the portion of an asset pool on which a third party undertook to absorb the same portion on a pro-rata basis; or stated differently, do not report the portion of an asset pool if the savings association does not have to absorb a set amount of loss before the third party begins to share losses);
3. Losses reported as liabilities in Schedule SC; and
4. Loans swapped for a security if the entire security is retained on the balance sheet.

CC465: Amount of Direct Credit Substitutes on Assets in CC455

Report outstanding amount of recourse **exposure** from direct credit substitutes (as defined in OTS Regulation 567.1) on third-party assets included on CC455. The amounts reported on CC465 and CC468 represent the extent of the recourse exposure, as opposed to the amount of the principal of the asset reported on CC455.

Include:

1. The face amount of direct credit substitutes (*e.g.*, financial-guarantee type standby letters of credit) issued by the savings association or its consolidated subsidiary covering the full amount of losses on a third-party asset pool;
2. The face amount of direct credit substitutes (*e.g.*, financial-guarantee type standby letters of credit) covering a non-pro rata share of credit losses (*i.e.*, a subordinated loss position) on a third-party asset pool; and
3. Certain nonsecurity financial instruments under SFAS No. 125 on spread accounts and other third party asset pools.

CC468: Amount of Recourse Obligations on Assets in CC455

Report the maximum amount of recourse obligations (*i.e.*, maximum contractual **loss exposure** from the retention or assumption of credit risk) on off-balance-sheet assets reported on CC455. The amounts reported on CC465 and CC468 represent the extent of the recourse exposure, as opposed to the amount of the principal of the assets reported on CC455.

OTHER CONTINGENT LIABILITIES**CC480:**

Report all contingent liabilities not reported elsewhere in this schedule.

CONTINGENT ASSETS

CC490:

Report all contingent assets not reported elsewhere.

SCHEDULE SQ — CONSOLIDATED SUPPLEMENTAL QUESTIONS

Indicate whether an activity occurred during the period by placing an "X" in either the "Yes" or "No" column of each question; no question which can be answered with a "yes" or "no" should be left blank. Check "Yes" if there is any doubt as to whether an activity occurred during the quarter. All questions except SQ310 should be completed for the reporting savings association only, and not for its consolidated subsidiaries. Question 310 applies to both the reporting savings association and its consolidated subsidiaries.

SQ100: Did the reporting association acquire any assets through merger with another depository institution?

Check "Yes" only if your institution merged during the quarter with another depository institution. Do not include mergers with your holding company or nondepository affiliates or subsidiaries. If your institution merged with a non-OTS regulated depository institution, report the amount of deposits acquired on CF435.

SQ110: Did the reporting association include in this balance sheet for the first time assets and/or liabilities acquired as a result of a branch or other bulk deposit purchase?

Check "Yes" for any branch or bulk purchase of assets or liabilities. If your institution purchased deposits, report the purchased amount on CF435. Do not include acquisition of real estate for a branch office where no bank operations were purchased.

Has there been:

SQ130: a change in control of the association?

Check "Yes" if there has been any change in the power, directly or indirectly, to direct the management or policies of the savings association. Indicate "Yes" if there has been any change in the power to vote 10 percent or more of any class of your institution's voting securities. Refer to Section 563.181 of the Insurance Regulations for definitions with respect to change in control.

SQ160: a merger accounted for under the purchase method?

Check "Yes" if during the quarter the reporting savings association acquired another depository institution whose assets and liabilities are reported on the reporting savings association's current TFR using the purchase method of accounting.

Do not check "Yes" for:

1. A change in control in which push-down accounting was used;
2. An acquisition of a subordinate organization; or
3. An acquisition of a branch.

SQ170: If the reporting association restated its balance sheet for the first time this quarter as a result of applying push-down accounting, enter the date of the reorganization (MMDDYYYY).

Report the date (month, day, and year) of the acquisition of the reporting savings association if push-down accounting was applied this quarter. This should be reported during the quarter that push-down accounting is first applied, and should also be entered in subsequent quarters if material adjustments are made. This date should also be reported if push-down adjustments are applied retroactively. For example, if the acquisition took place on December 10, 1997, but the reporting savings association's balance sheet was restated in February 1998, enter 12101997 on the March 1998 TFR.

SQ270: Reporting association's fiscal year-end

Enter the month for the savings association's current fiscal year-end for annual financial statement purposes. In some cases this may not correspond to the tax year-end.

SQ280: Code representing nature of work to be performed by independent public accountants for the current fiscal year

Indicate in this data field the code for the statement below that best describes the level of audit or other attestation work to be performed by an independent public accountant as of the end of the savings association's current fiscal year. The current fiscal year is the 12-month period which includes the quarter being reported on.

- 07 We do not plan to have an audit or other attestation work by an independent public accountant.
- 08 We do not plan to have an audit. However, we do plan to have other attestation work (*i.e.*, review, compilation, or agreed-upon procedures) performed, and reported on, by an independent public accountant.
- 09 We plan to have an audit of, and receive a report on, only the holding company's consolidated financial statements by an independent public accountant.

Use this code where plans are for an audit of, and report on:

- a. **Only** the holding company's consolidated financial statements, and therefore
- b. **Not** the savings association's "separate" financial statements.

Include:

1. Core deposit intangible assets (CDIs); and
2. Purchased credit card relationships (PCCRs).

Do not include:

1. Servicing assets;
2. Certain nonsecurity financial instruments accounted for under SFAS No. 125; and
3. Net deferred tax assets

CCR120: Nonqualifying Equity Instruments

The only equity instruments that may be included in Tier 1 (core) capital are **noncumulative perpetual preferred stock** and **common stock**.

Any instruments **not meeting this definition**, reported on SC-812 (Perpetual Preferred Stock: Cumulative), SC-820 (Common Stock: Par Value) and SC-830 (Common Stock: Paid In Excess Of Par), must be deducted from capital on this line.

Report this line as a positive amount; it will be deducted from equity capital in calculating Tier 1 (core) capital.

Include:

1. Cumulative preferred stock reported on SC812;
2. Noncumulative and cumulative preferred stock reported on SC812 and SC814 that is, in effect, **collateralized** by assets of the savings association or its subsidiaries;
3. Noncumulative and cumulative preferred stock reported on SC812 and SC814 where the dividend adjusts based on current market conditions or indexes and the issuer's current credit rating;
4. Permanent Income Capital Certificates (PICCs) reported on SC812; and
5. Any other equity instruments reported on SC812 through SC830 that do not qualify as Tier 1 (core) capital pursuant to OTS Regulation 567.5.

CCR133: Disallowed Servicing Assets, Disallowed Deferred Tax Assets, and Other Disallowed Assets

Report this line as a positive amount; it will be deducted from CCR20 in computing Tier 1 (core) capital.

Disallowed Servicing Assets

Savings associations may include servicing assets reported on SC642 and SC644 in regulatory capital, subject to both of the following limitations.

For mortgage and nonmortgage servicing assets, and PCCRs, combined - include in capital the lesser of:

- 100% of Tier 1 (core) capital,
- 90% of fair value, or
- 100% of reported amount.

For nonmortgage servicing assets and PCCRs, as a separate sub-limit - include in capital the lesser of:

- 25% of Tier 1 (core) capital,

- 90% of fair value, or
- 100% of reported amount.

Accordingly, on CCR133, include the amount of servicing assets reported on lines SC642 and SC644 (that are not in a "nonincludable" subsidiary) and PCCRs included on SC660 that exceed the above limitations.

For purposes of the 25% and 100% of Tier 1 (core) capital limitations above, the deduction should be based on a Tier 1 (core) capital subtotal before the deduction. Also, in computing the deduction for the 25% and 100% limitations, the reported amount of servicing assets may be reduced by any corresponding deferred tax liability.

Disallowed Deferred Tax Assets

Also include on CCR133 the amount of disallowed deferred tax assets that will be deducted from regulatory capital. To the extent that the realization of deferred tax assets depends on a savings association's future taxable income (exclusive of reversing temporary differences and carryforwards), or its tax planning strategies, such deferred tax assets are limited for regulatory capital purposes to the lesser of:

- The amount that can be realized within one year, or
- 10% of Tier 1 (core) capital.

Accordingly, disallowed deferred tax assets is that amount includable in assets under GAAP, but **not** includable in regulatory capital pursuant to OTS policy. The deferred tax asset subject to the limitation is the net deferred tax asset or liability included on Schedule SC, adjusted for the deferred tax asset or liability added to or subtracted from total assets related to the following:

- Net unrealized gains and losses on certain available-for-sale securities on CCR137,
- Goodwill and other intangible assets on CCR155 and CCR250, and
- Servicing assets on CCR170.

Note that deferred tax assets that can be realized from the following generally are **not** limited:

- Taxes paid in prior carry-back years, and
- Future reversals of existing taxable temporary differences.

For purposes of the 10% of Tier 1 (core) capital limitation above, the deduction should be based on a Tier 1 (Core) capital subtotal before the deduction.

Add:

CCR102: Accumulated Losses (Gains) on Certain Available-for-Sale Securities and Cash Flow Hedges, Net of Taxes

Report on this line:

1. Amounts included in equity capital for accumulated unrealized gains and losses on certain available-for-sale securities; and
2. Amounts included in equity capital for accumulated gains and losses related to qualifying cash flow hedges.

CALCULATION OF ADJUSTED TOTAL ASSETS

CCR135: Total Assets

Report total assets of the consolidated entity as reported on SC60 (Total Assets).

This line will be automatically generated from SC60 (Total Assets) by the electronic filing software.

Deduct:

CCR145: Assets of “Nonincludable” Subsidiaries

Report the entire amount of the assets of “nonincludable” subsidiaries included in Schedule SC. For consolidated subsidiaries, the amount reported here should equal total assets of the subsidiary less any assets eliminated in consolidation. For subsidiaries accounted for under the equity method, the amount reported here should equal the thrift’s investment account plus all advances to the subsidiary.

Report this line as a positive amount; it will be deducted from total assets in calculating CCR25 (Adjusted Total Assets).

CCR155: Goodwill and Other Intangible Assets

Because for most savings associations the amount reported on this line will equal SC660 (Statement of Condition: Goodwill and Other Intangible Assets), this line will be automatically generated from SC660 by the electronic filing software. However, this amount may be changed in certain cases.

Report this line as a positive amount; it will be deducted from total assets in calculating CCR25 (Adjusted Total Assets).

CCR170: Disallowed Servicing Assets, Disallowed Deferred Tax Assets, and Other Disallowed Assets

Because for most savings associations the amount reported on this line will equal CCR133, this line will be automatically generated from CCR133 by the electronic filing software. However, this amount may be changed in certain cases. For example, deferred tax liabilities may be deducted from servicing assets on CCR133, but cannot be deducted from servicing assets on CCR170.

Report this line as a positive amount; it will be deducted from CCR135 in calculating CCR25 (Adjusted Total Assets).

Add:

CCR137: Accumulated Losses (Gains) on Certain Available-for-Sale Securities and Cash Flow Hedges

Report on this line:

1. Amounts included in total assets for accumulated unrealized gains and losses on certain available-for-sale securities; and

2. Amounts included in total assets representing the fair value of derivative instruments in a gain position related to qualifying cash flow hedges.

The corresponding adjustment to equity capital should be reported on CCR102. See the instructions for line CCR102 for additional information.

Accumulated Unrealized Gains and Losses on Certain Available-for-Sale Securities

Calculate the amount included on this line for unrealized gains and losses on certain available-for-sale securities as follows:

The amount included in SC60 (Total Assets) which corresponds to the separate component of equity capital reported on SC860.

Plus: As a positive number, any amount included in SC60 that represents net unrealized **losses** on **equity** securities (but **not debt** securities).

Report the result on CCR137 as follows:

- As a **negative** number reducing total assets, when the result from the above calculation represents net unrealized **gains**; or
- As a **positive** number increasing total assets, when the result from the above calculation represents net unrealized **losses**.

Derivative Instruments Related to Qualifying Cash Flow Hedges

Include on this line the fair value of derivative instruments in a gain position related to qualifying cash flow hedges that are included in assets on Schedule SC. This amount should be included as a negative number, reducing total assets.

CCR250: Qualifying Intangible Assets

For most savings associations the amount reported on this line will equal CCR220; therefore, this line will be automatically generated from CCR220 by the electronic filing software. However, in certain cases it may be appropriate to change this amount. For example, where grandfathered CDIs included in CCR220 have been reduced by the corresponding deferred tax liabilities, the gross amount of grandfathered CDIs should be manually entered in this field.

CCR25: Adjusted Total Assets

Report CCR135 less CCR145, CCR155, CCR170, plus CCR137 and CCR250.

This line will be automatically computed by the electronic filing software.

CCR27: Tier 1 (Core) Capital Requirement

Report CCR25 (Adjusted Total Assets) multiplied by 3% for savings associations assigned a composite CAMELS rating of "1" and 4% for all other savings associations. This represents the Tier 1 capital necessary to be deemed adequately capitalized pursuant to 12 CFR Part 565.

This line will be automatically computed at 4% by the electronic filing software and may be manually input for those associations assigned a composite CAMELS rating of "1". Associations that have an "individual minimum capital requirement" (IMCR) set by OTS, that requires the maintenance of a capital level in excess of the minimum requirement, should override the calculated amount and report their IMCR. In no case should this amount be less than 3% of CCR25.

TOTAL RISK-BASED CAPITAL

CCR39:

Report the total of CCR30 plus CCR35 minus CCR370, CCR375 and CCR380.

This line will be automatically computed by the electronic filing software.

RISK-WEIGHT CATEGORIES

General Instructions

In order to calculate the total risk-based capital standard, savings associations must classify their assets in one of five risk-weight categories described below. The portion of assets required to be deducted from Tier 1 (core) capital are **not** to be risk weighted (e.g., nonincludable subsidiaries and nonqualifying intangibles).

The assets of includable subsidiaries (i.e., subsidiaries consolidated under GAAP) are consolidated in determining the appropriate risk-weight categories. However, the assets of **nonincludable subsidiaries** and **nonincludable equity investments** are excluded in computing risk-weighted assets.

Assets to be risk-weighted should not be reduced by any allocated allowance for loan and lease losses (ALLL). In other words, loans should be risk-weighted at their recorded investment less specific valuation allowances. All other assets should be risk-weighted at their recorded investment less specific valuation allowances and allocated general valuation allowances. ALLL is included in Tier 2 (supplementary) capital, unlike other general valuation allowances; therefore, general valuation allowances for assets other than loans and leases may be deducted from the related asset in calculating the amount to be risk-weighted.

Additionally, assets are to be risk-weighted after adjustments to those assets relating to regulatory capital adjustments; for example: gains and losses on certain available-for-sale securities, disallowed servicing assets, and disallowed net deferred tax assets. For those available-for-sale equity securities where up to 45% of the pretax unrealized gains, net of unrealized losses, are included in Tier 2 capital (on CCR302), 100% of those unrealized gains should be included in assets to risk-weight; in other words, the fair value, not the historical cost, of these available-for-sale equity securities should be risk-weighted.

In determining the appropriate risk-weight category for secured loans, the reporting savings association must look at the type of collateral. In determining the appropriate risk-weight category for investments in mutual funds, the reporting savings association must look to the characteristics of the assets in the portfolio of the fund. Where the portfolio of a mutual fund consists of various assets that would be treated differently under the capital requirement the association has two alternatives:

1. The entire ownership interest in the mutual fund may be dealt with based on the category of the asset with the highest capital requirement in the portfolio or excluded from assets and thus deducted from calculations of total capital, as appropriate; or
2. The association may assign different risk-weight categories to the mutual fund on a pro-rata basis, according to the investment limits for different categories in the fund's prospectus.

Regardless of the risk-weighting method used, the total risk-weight of a mutual fund must be no less than 20%.

The sum of each risk-weight category is multiplied by the risk-weight percentage appropriate for that category (e.g., the sum of the 0% risk-weight category is multiplied by 0%). After each risk-weight category has been summed and multiplied by its appropriate risk-weight, the product of each risk-weight category is summed. This results in the on-balance-sheet portion of the total risk-based capital standard.

Off-balance-sheet items are also included in the total risk-based capital standard after they have been converted into on-balance-sheet equivalents. Off-balance-sheet items are converted by taking the dollar amount of the off-balance-sheet item (or the grossed up amount of off-balance-sheet recourse obligations under OTS Regulation 567.1, as appropriate) and multiplying it by the appropriate credit conversion factor from the table that follows the discussion of risk-weight categories. Additionally, interest-rate and exchange-rate contracts are risk-weighted by calculating a credit equivalent amount as described later in these instructions following the discussion of off-balance-sheet items.

Report in the appropriate category all on-balance-sheet assets together with all on-balance-sheet equivalents (off-balance-sheet items that have been converted in accordance with the discussion above).

From the sum of on-balance-sheet and off-balance-sheet risk-weighted assets, a deduction is taken for allowances for loan and lease losses (ALLL) in excess of the amount permitted to be included as capital on CCR350.

Note that all loans and investments that are more than 90 days past due are reported on CCR505 (100% Risk-weight: All Other Assets), regardless of the type of investment or collateral with the exception of FDIC covered assets, which are reported on CCR410 (0% Risk-weight: FDIC Covered Assets).

0% Risk-weight

CCR400: Cash

Report all cash-on-hand, including the amount of domestic and foreign currency owned and held or in transit in all offices of the savings association. Any foreign currency must be converted into U.S. dollar equivalents as of the date of the report.

Do not include:

1. Cash deposited in another financial institution, whether interest-bearing or noninterest-bearing; report on CCR445.
2. Cash equivalents such as travelers' checks; report on CCR445.

CCR405: Securities Backed by Full Faith and Credit of U.S. Government

Report the amount of securities issued by and other direct claims on: (1) the U.S. Government or its agencies to the extent such securities or claims are **unconditionally** backed by the full faith and credit of the U.S. Government; or (2) the central government of an Organization of Economic Cooperation and Development (OECD) country.

Include:

1. GNMA securities;
2. U.S. Treasury securities; and
3. SBA pools or certificates, or portions thereof, that are unconditionally guaranteed by the full faith and credit of the U.S. Government.

Do not include:

1. Notes and obligations of the FDIC; report on CCR408;

3. At the time a loan is placed in the 50% risk-weight category, all principal and interest payments on the loan for the preceding year have been made on a timely basis in accordance with the loan terms (*i.e.*, not 30 days or more past due);
4. The loan is performing and not 90 days or more past due;
5. The loan was made by the savings association in accordance with prudent underwriting standards;
6. The current outstanding loan balance does not exceed 80% (75% for variable rate loans) of the value of the property securing the loan; and
7. For the property's most recent fiscal year, the ratio of annual net operating income generated by the property (before payment of any debt service on the loan) to annual debt service on the loan is not less than 120 percent (115 percent for variable rate loans), or in the case of cooperative or other not-for-profit housing projects, the property generates sufficient cash flows to provide comparable protection to the savings association.

For purposes of criteria (6) above, the term "value of the property" means, at origination of a loan to purchase a multifamily property: the lower of the purchase price or the amount of the initial appraisal, or if appropriate, the initial evaluation. In cases not involving purchase of a multifamily property (*e.g.*, new loans on existing properties already owned by a borrower), the value of the property is determined by the most current appraisal, or if appropriate, the most current evaluation.

In cases where a borrower refinances a loan on an existing property, instead of complying with criteria (3) and (7) above, a loan may qualify by satisfying the following criteria:

1. For the preceding year all principal and interest payments on the loan being refinanced have been made on a timely basis in accordance with the loan terms (*i.e.*, not 30 days or more past due); and
2. The net income on the property for the preceding year would have supported timely payment of principal and interest on the new loan in accordance with the applicable debt service requirement.

Residential property is defined in OTS Regulation 567.1 as houses, condominiums, cooperative units, and manufactured homes. This definition does not include hospitals and nursing homes. Manufactured homes are those subject to HUD regulations under Title VI of the U.S. Code.

Mortgage loans on mixed use properties that are primarily multifamily residential properties are included on this line if the criteria for qualifying multifamily mortgage loans are satisfied.

Grandfathered Qualifying Multifamily Mortgage Loans

Qualifying multifamily mortgage loans entered on this line include multifamily mortgage loans that on March 18, 1994 met the criteria of qualifying multifamily mortgage loans under the OTS capital rule on March 17, 1994 and continue to meet those criteria, namely:

1. The mortgage is secured by an existing property consisting of 5 to 36 dwelling units;
2. The initial loan-to-value ratio is not more than 80%; and
3. The property has had an average annual occupancy rate of 80% or more of total units for the past full year.

CCR470: Other MBS Backed by Qualifying Mortgage Loans

Report mortgage-backed securities, other than high quality mortgage-backed securities reported on CCR430, that are backed by **qualifying single-family** residential mortgage loans eligible to be reported on CCR460 or **qualifying multifamily** residential mortgage loans eligible to be reported on CCR465. Include IOs, POs, and CMOs (excluding residuals that are backed by qualifying single-family or multifamily residential mortgage loans but are excluded from CCR430 because the security has less than a AA rating. **Residual classes** of mortgage-related securities are reported on CCR505 (100% Risk-weight: All Other Assets).

If securities are backed by **qualifying multifamily residential mortgage loans**, the savings association must receive timely payments of principal and interest in accordance with the terms of the security. Payments generally are considered to be timely if they are not 30 days or more past due.

CCR475: State and Local Revenue Bonds

Report securities issued by state and local governments whereby the revenues from a stated project (e.g., a toll road) repay the security.

CCR480: Other

Report all fifty-percent risk-weight assets not included above as defined in OTS Regulation 567.6(a)(1)(iii).

Include:

1. The credit equivalent amount of interest and exchange rate contracts (e.g., interest-rate swaps and caps) where the counter party is an entity other than a domestic depository institution, a FHLBank, or a Federal Reserve Bank;
2. Revenue bonds issued by any public-sector entity in an OECD country that are payable solely from the revenues generated from the project financed through the issuance of the obligations; and
3. Qualifying residential construction loans, also referred to as "residential bridge loans," meeting the criteria of 12 CFR 567.1, which generally must satisfy the following criteria:
 - a. The loan must be made in accordance with sound lending principles to a builder, who must have substantial equity in the project (at least 10% equity, or an appropriate higher minimum amount depending upon project risk), for the construction of a 1-4 family residence that is sold to a home purchaser;
 - b. The lending thrift institution must obtain sufficient documentation from a permanent lender (which may be the construction lender) demonstrating that: the home buyer intends to purchase the residence; has the ability to obtain a permanent qualifying mortgage loan sufficient to purchase the residence; and has made a substantial earnest money deposit;
 - c. The construction loan must not exceed 80 percent of the sales price of the residence; must be secured by a first lien on the lot, residence under construction, and other improvements; must be performing and not more than 90 days past due;
 - d. The home purchaser(s) must intend that the home will be owner-occupied; must be an individual(s) and not a business entity or any other entity that is purchasing the home(s) for speculative purposes;
 - e. The lending thrift institution must retain sufficient undisbursed loan funds throughout the construction period to ensure project completion. The builder must incur a significant percentage of direct costs (i.e., the actual costs of land, labor, and material) before any drawdown on the loan.

CCR485: Total

Report the sum of CCR460 through CCR480. This line will be automatically computed by the electronic filing software.

CCR50: 50% Risk-weight Total

Report the risk-weighted product all 50% risk-weight assets (i.e., 50% times CCR485). This line will be automatically computed by the electronic filing software.